

Cooperative Capital A Canadian Perspective

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The Co-operators Group Limited*

Canada

Our Place in the World
(Literally)



Canada

10 Provinces & 3 Territories



The Co-operators Today

The Co-operators Group Limited

A leading Canadian multi-product insurance and financial services cooperative with \$40 billion in Assets Under Administration

Operating in 3 Core Areas

- ✓ Property & Casualty ("P&C") Insurance
 - 6th largest P&C insurer in Canada
 - We insure 1.2 million vehicles, 770,000 homes, 418,000 businesses and 37,000 farms
- ✓ Life & Health Insurance
 - 10th Largest Life Insured in Canada
 - We insure 628,000 lives, 212,000 employees (Group Benefits), and provide creditor insurance to 624,000 Canadians
 - Offer a wide range of insured personal investment products
- ✓ Institutional Investments and Asset Management

The Co-operators Group Limited

Supported By

- 4,675 Employees
- Plus, an exclusive, yet independent, financial advisor network across Canada
 - 2,673 licensed insurance representatives

We also serve

- 300 credit unions with more than 5.5 million members

Our Members Include

- Cooperative Organizations
- Credit Union Centrals
- Representative Farm Organizations

The Co-operators Group Limited

Governed under Federal Legislation

- *Canada Cooperatives Act*

3rd Tier Cooperative

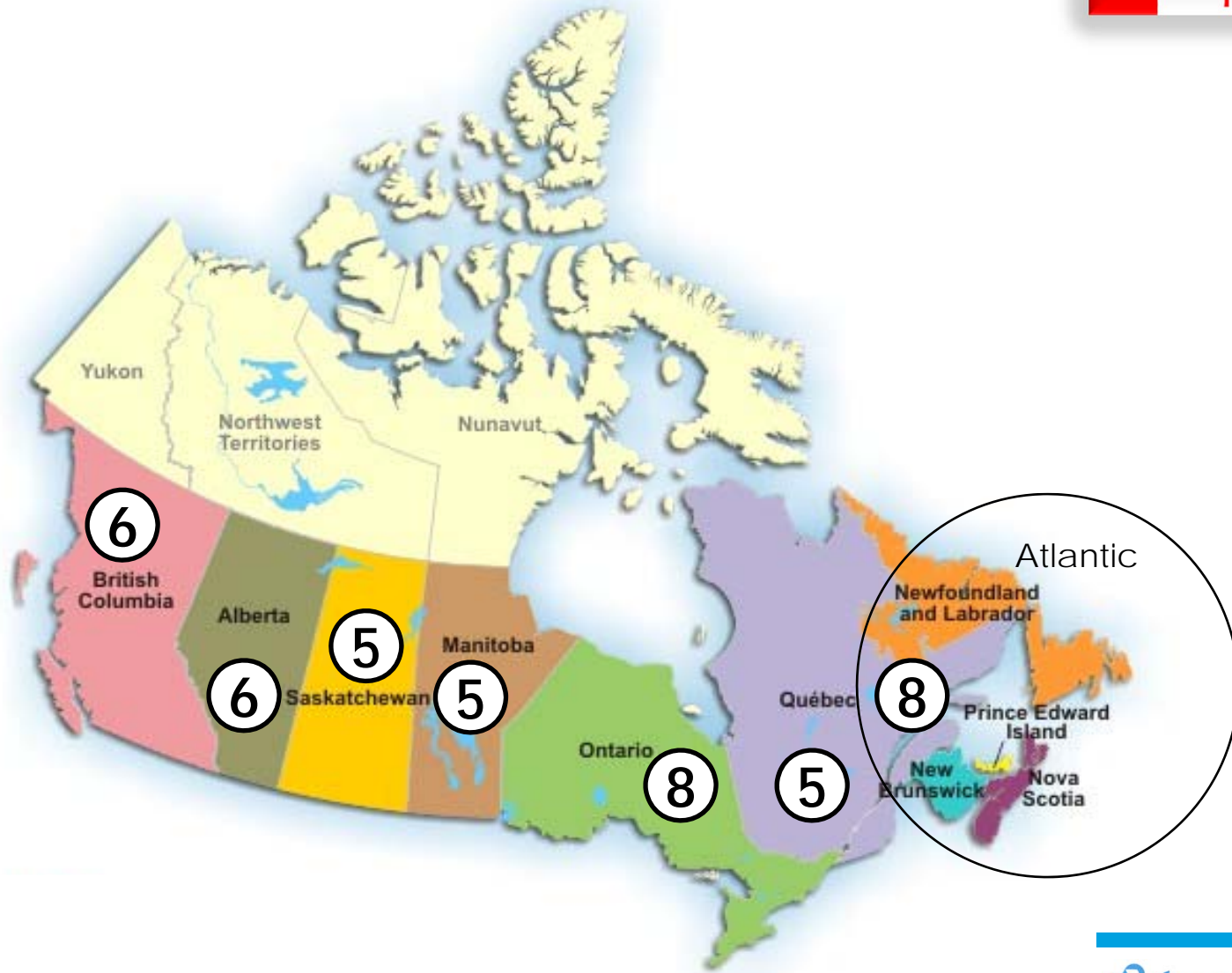
- Federation of Cooperatives

43 Member Cooperatives

- 2nd Tier (Federations) & 1st Tier
- Operating in various Industry Sectors
 - agriculture, service, financial services, retail/consumer, health, labour

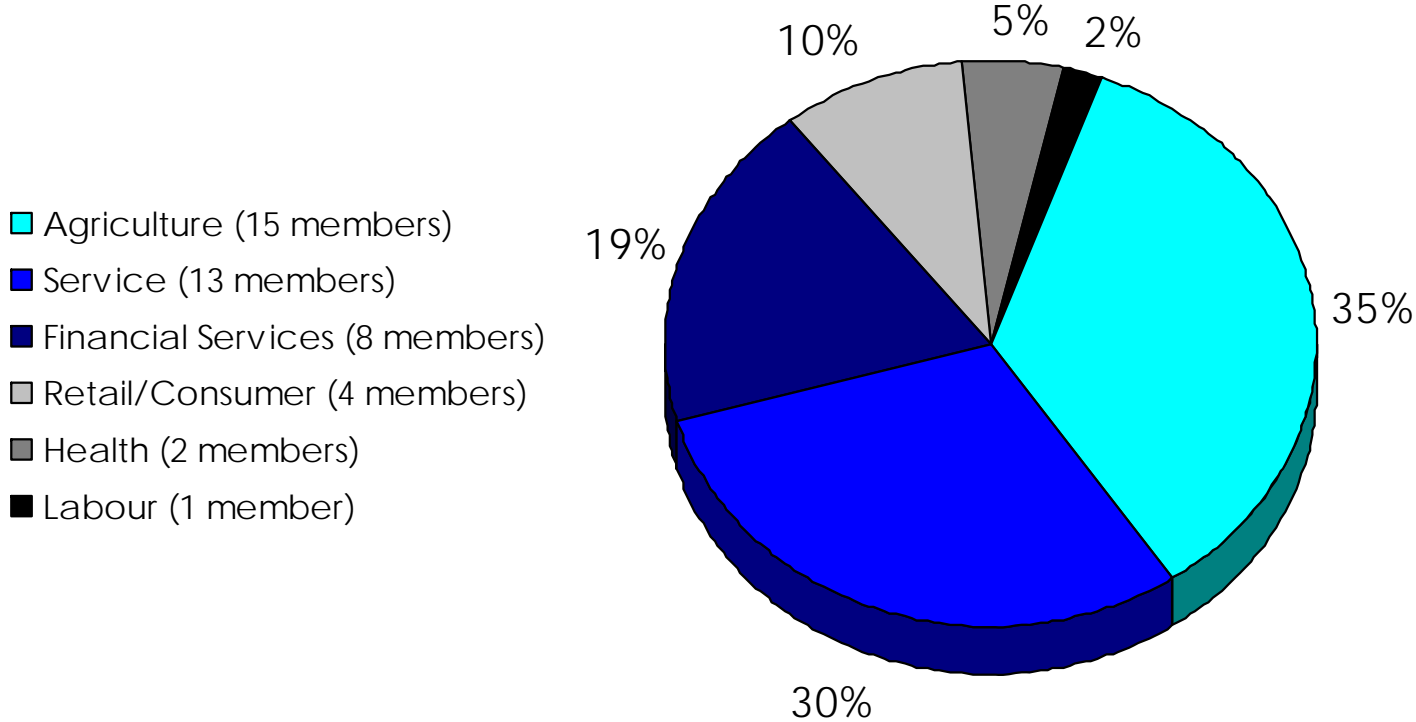
The Co-operators Group Limited

43 Members in 7 Regions



The Co-operators Group Limited

Membership by Sector



The Co-operators Group Limited

Facts

- Co-operators' subsidiaries are not cooperatives
- In Canada, insurance companies cannot be organized as cooperatives
 - Only as:
Joint Stock Insurance companies
(owned by investor shareholders)
or,
Mutual Insurance companies
(owned by policyholders)

The Co-operators Group Limited

Co-operators Financial Services Limited

Property & Casualty

6th Largest P&C Company by Premium

Life Insurance

10th Largest Life Company by Premium

Investment & Other

11th Largest Pension Manager by AUM

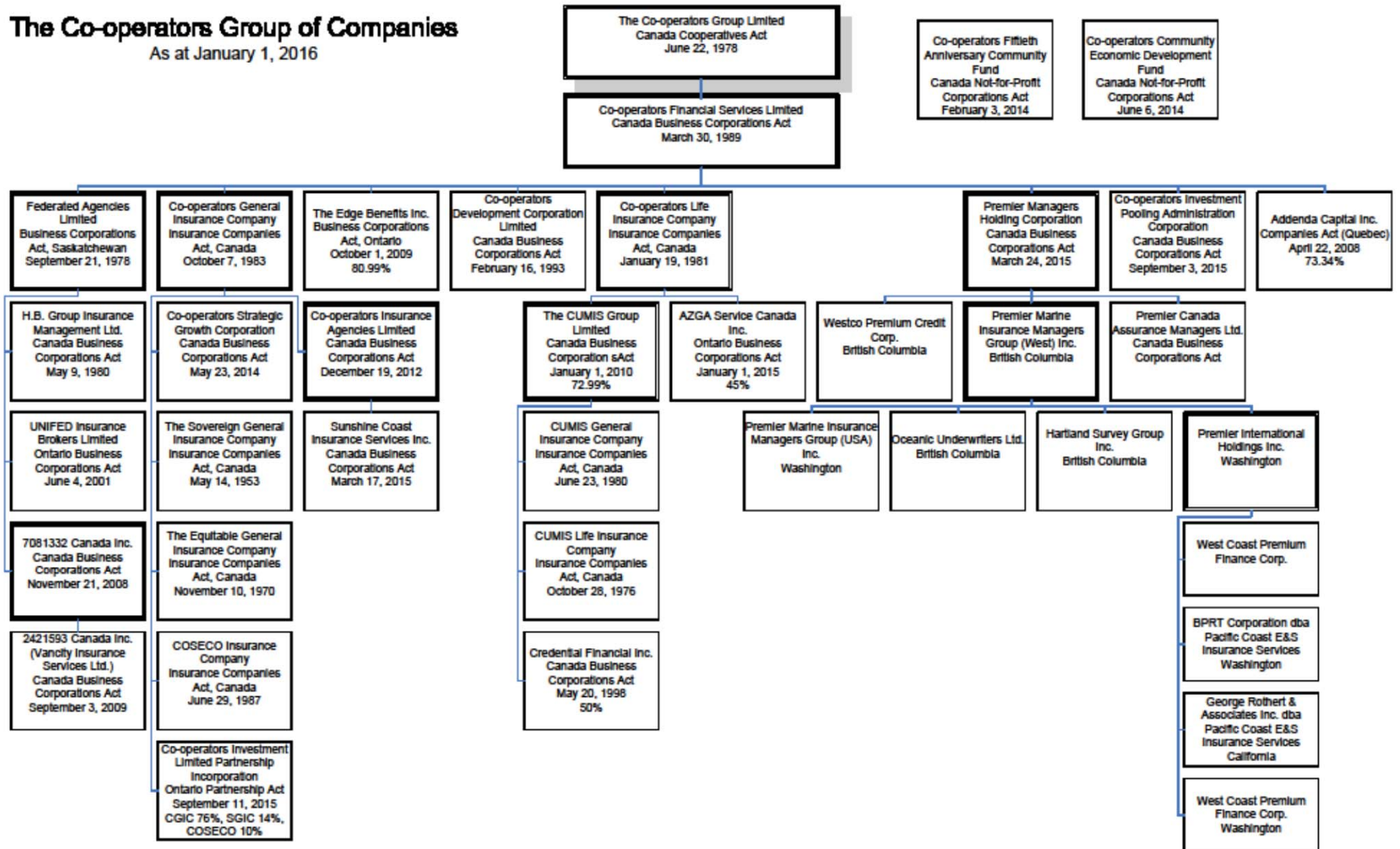


FEDERATED
AGENCIES LIMITED



The Co-operators Group of Companies

As at January 1, 2016





The Capital Conundrum for Co-operatives



Sagale farming co-operative, Ethiopia. Photo: United Nations.

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The Co-operators Group Limited: A Canadian Perspective

FRANK LOWERY AND WAYNE SCHATZ

The Co-operators Our Cooperative Capital History

The Co-operators Group Limited

Origins

1940's

- Two predecessor organizations originated independently in Western Canada and Eastern Canada
- Philosophically grounded in the cooperative movement

1970's

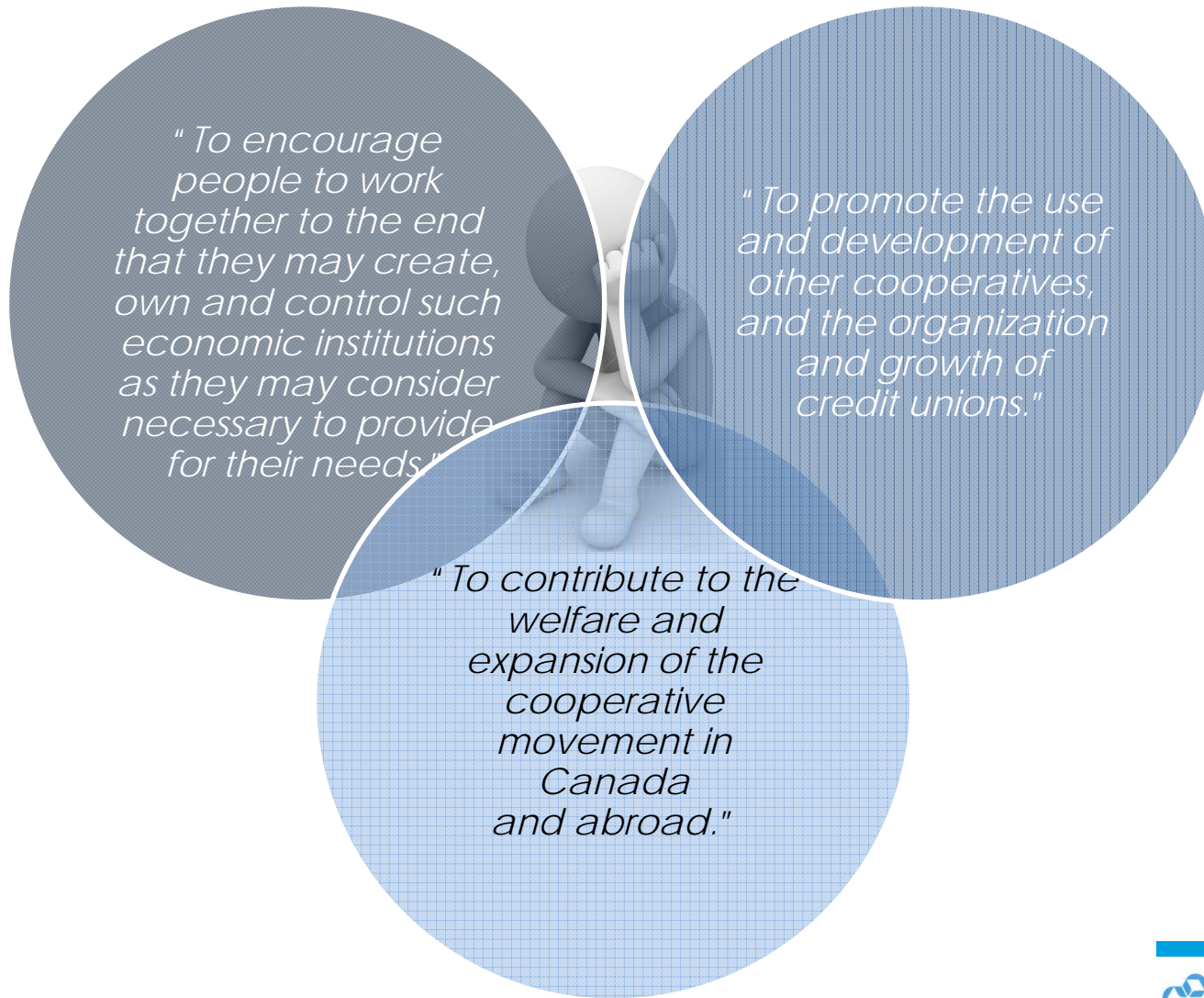
- Merged to form The Co-operators Group Limited

The Co-operators Group Limited

1940 Origins



Founders' Cooperative Philosophy



Raising Capital

The Early Days

- Combination of *ad hoc* contributions and direct investment from both members and founding sponsor cooperatives
 - Freely transferred as members joined, and left
- No thought was given to the idea that the interest of each Member Owner in The Co-operators was anything other than philosophical

Raising Capital

Other Capital Raising Initiatives

1957

Policyholders asked to voluntarily contribute CAD \$2 above required premium

1965

Young male drivers asked to voluntarily purchase one CAD \$25 preference share

1988

Individual shareholders surrendered residual rights to surplus, at significantly below fair market value, to pave the way for possible access to public equity markets

Raising Capital

Other Capital Raising Initiatives

1993 & 1995

Due to poor financial results, capital could not be raised in public equity and debt markets

The Co-operators reached out to the International Cooperative and Mutual Insurance Federation (ICMIF), and other philosophically-aligned, sympathetic cooperative sources of capital, to purchase participating preference shares

Raising Capital

Other Capital Raising Initiatives

1997 to Present

The Co-operators raised capital in the public markets by issuing non-voting preference shares and [subordinated] debentures (debt)

Staff may also purchase non-voting preference shares, paying a dividend of 5%

Raising Capital

Other Capital Raising Initiatives

2002 to Present

The Co-operators introduced a “Member Loyalty Program”, an annual patronage-like program, to enable members to share in the economic success of the cooperative

- o Cash payments with option to apply up to 50% to the purchase of 5-year redeemable investment shares paying a 5% annual dividend
- o 1/5th of the original investment is redeemed each year

Capital

What Has NOT Been Done

No issuance of voting, common shares through public investment markets

- Despite The Co-operators primary holding company being designed for that purpose

In hindsight, *a blessing in disguise*

- Avoided embedding investor-owned capital into our cooperative
 - and the potentially negative & deleterious associated effects

Social Aspects of Cooperative Capital

- Community Advisory Panel Program
- Policyholder Panels
 - Insurance Claims Appeals
- Employee Cooperative Volunteering
- Cooperative Education Support
 - Post-secondary Programs
- Cooperative Trade Associations
 - CMC, CAMIC, ICMIF, ICA
- Multi-stakeholder Cooperative Experiment

Cooperative Capital The Co-operators Perspective

The Co-operators Perspective

1. Cooperative capital is inherently incompatible with investor-owned capital;
2. Investor-owned capital has no intrinsic commitment to cooperative values, principle or form of enterprise;
3. Embedding investor-owned capital into a cooperative can threaten its existence, particularly in times of financial stress;
4. Cooperative capital must be “philosophical capital” aligned with cooperative values and principles, not on maximizing economic return
 - o Limited Return on Investment (Principle #3)
 - o Concern for Community (Principle #7)

The Co-operators Perspective

5. There is an abundance of Cooperative and Philosophic Capital in the financial world
 - Challenge is how to access it in an organized and disciplined way

6. Must enhance access to Cooperative Capital
 - Cooperatives must collaborate and champion legislative and structural changes
 - Including interpret and apply Cooperative Principles in a more robust and holistic way

Enhance Access to Cooperative Capital

1. Clarify ICA Principle #6 - "Cooperation among Cooperatives"
 - It should also apply to providing access to cooperative capital
2. Create a Cooperative Stabilization Fund
 - To assist cooperatives experiencing financial difficulty
3. Create a Mutual & Cooperative Benefits Association
 - Allow mutual insurers, cooperatives and other like-minded, membership-based organizations to merge without the need to demutualize or de-cooperativize
4. Create funding and investment vehicles to allow cooperatives to access market financial instruments on market terms & conditions
 - Where such instruments are owned & controlled by the owners of philosophical capital

Challenges & Opportunities

1. In an investor-dominated world, cooperatives need to interpret and apply Cooperative Principles in a more holistic and robust way
 - Cooperation among cooperatives
2. Break through Co-operative Sectoral Siloes
 - While part of cooperative evolution, cooperatives need to reach out to, and support each other, across existing siloes
3. Large cooperatives have the opportunity to support smaller cooperatives within and across sectors
4. Assist Fellow Cooperatives in Financial Distress
 - Apply all resources available, including cooperative capital, to restore to good health or, if not possible, wind-down in an orderly manner
 - Would require legislative change to provide a larger cooperative the power to do so

Achilles Heel of Cooperatives?

Accessing Investor-owned Capital

Good Times

A cooperative seeking capital is financially healthy and strong and is able to compete for available investor-owned capital, often on as good as, if not better than, market terms & conditions

HOWEVER,

Investor-owned capital demands:

- (1) security over assets, *and*,
- (2) priority over claims of others, *including members*

Achilles Heel of Cooperatives?

Accessing Investor-owned Capital

Bad Times

- The cooperative is in a time of financial uncertainty, stress or crisis
- At times of organizational stress and weakness, a cooperative becomes most at risk of losing its way, *and by seeking investor-owned capital* may begin the downward slide towards the loss of its cooperative identity, and its ultimate demise
 - Therefore, it should be a solution of “last resort”

Final Thoughts

- There is no scarcity of Cooperative Capital
- Let us leverage our immense collective strength to assist other cooperatives to survive in a world dominated by investor-owned capital
- Many mechanisms exist today. We need to take the best and replicate them
- Where they do not exist, and lobby for legislative change where necessary

Final Thoughts

- Let us be inspired by the Rochdale Pioneers who overcame immense adversity during the heights of the Industrial Revolution
 - A spirited & principled approach, guided by shared co-operative values and, relying on their own human capital
- As 21st century cooperators, we can overcome the challenge of Cooperative Capital and access to it



Cooperative Capital

Questions & Discussion

